

{Washington, D.C.— Congressman Joe Sestak (PA-07) helped the House pass, by a 367-54 margin, legislation to help Americans stay in their homes and to avoid many of the estimated 8.1 million additional defaults on mortgages predicted over the next four years when potentially 5 million homes could be lost through foreclosure or short sales. Home prices dropped nearly 14 percent in the first quarter of 2009, while nearly one in five homeowners owe more than their home is worth and many cannot refinance. Each foreclosed home reduces nearby property values by as much as nine percent. By opening the HOPE for Homeowners refinancing program to more families and insuring more consumer savings through the Federal Deposit Insurance Corporation (FDIC), the Helping Families Save Their Homes Act (S. 896) represents a critical first step in implementing President Obama’s comprehensive Homeowner Affordability and Stability Plan.} — {“This bill will begin to provide homeowners the assistance they need and will help restore stability to the housing and mortgage markets,” said Congressman Sestak. “Practical revisions to current programs will mean that more homeowners can refinance, larger deposits are insured through the FDIC and the overall economy benefits. It is important that the American people understand that this bill does not reward irresponsible behavior or provide people a quick escape through bankruptcy.”}

The legislation helps more families refinance into affordable mortgages through the Federal Housing Administration’s HOPE for Homeowners program. It protects lenders from frivolous lawsuits when they make loan modifications consistent with the Obama Administration’s program or through the Hope for Homeowners program; reduces the current fees for homeowners and lenders that have discouraged them from participating in the Hope for Homeowners program; and offers new incentives for lenders to negotiate loan modifications with borrowers at risk of foreclosure under the Hope for Homeowners program

The HOPE for Homeowners program, passed in February, was designed to help 400,000 homeowners modify their loans. However, because there was insufficient incentive for lenders and prohibitive costs for borrowers, only 27 mortgages have been modified through the program. This legislation will incentivize the program to make it attractive and useful for lenders and borrowers.

In addition, the bill strengthens consumer rights to housing information and provides greater support for community banks which are crucial to small businesses and families across this nation. Key measures include:

establishing the right of a homeowner to know who owns their mortgage;

providing renters who live in foreclosed properties with at least a 90-day notice for eviction; strengthening federal homeless programs; protecting the bank deposits and savings of consumers with a four-year extension of the increase in deposit insurance to \$250,000; and increasing the borrowing authority of the FDIC to reduce the financial burden on small community banks.

“The root of our present financial crisis lies in the turmoil that hit the housing market, spread rapidly through the financial system, and has now impacted all sectors of the U.S. and global economy,” the Congressman said. “Equifax estimates that 14 million homeowners hold mortgages that are higher than the current market value of their house. Of these, 6.4 million mortgages are underwater by 10%, and 3.4 million are 20% underwater. Coupled with rising unemployment, the risk of default on these mortgages is increasing dramatically.

“While a number of efforts have been undertaken by various government agencies and financial institutions to address the rising level of foreclosures and delinquencies through various forms of loan modifications, it appears that they have been overwhelmed by the growing tide of foreclosures, defaults, and delinquencies. We must also prepare for the next wave of Adjustable Rate Mortgages (ARM) that will reset over the next two years.”

In detail, the bill’s provisions include:

Hope for Homeowners

The Housing and Economic Recovery Act authorized \$300 billion in loan guarantees from FY 2009 through FY 2011 to establish the Hope for Homeowners program administered by the Federal Housing Administration (FHA). The program guarantees refinanced fixed, 30-year mortgages for at-risk borrowers, with terms and rates that make the new mortgage loans more viable. Under the program, the government is liable if a borrower defaults and the amount recovered in foreclosure is less than the outstanding principal on the mortgage loan.

The program requires borrowers who participate to pay insurance premiums each year to the FHA. Currently, after refinancing a mortgage through the program, borrowers are required to pay premiums that are equal to 1.5 percent of the mortgage. This bill changes the premium requirement to "up to 1.5 percent," thereby allowing, but not requiring, lower premium payments

by homeowners.

Additionally, before borrowers can refinance their mortgages with an FHA-backed lender, their current lender must agree to a substantial reduction in the value of the current mortgage. Current lenders have to establish a 3 percent loan loss reserve for the FHA to pay the origination and closing costs for the new loan. The House amendment modifies the loan loss reserve requirements to "up to 3 percent," allowing lower loss reserve payments by lenders. It also permits the program to pay lenders for refinancing mortgages, and authorizes the program to conduct an auction to refinance loans on wholesale or bulk basis.

The House amendment requires borrowers to certify that they have not intentionally defaulted on an existing mortgage, nor have they knowingly furnished false information for the purpose of obtaining a refinanced mortgage. It also requires borrowers to agree in writing that they are liable to repay the federal government for any financial benefit achieved through the reduction of a mortgage derived from such misrepresentation. Borrowers who have a net worth of more than \$1 million would be barred from participating in the Hope for Homeowners program.

The program currently provides that the government retain a share of future home-price appreciation to help defray its costs and prevent unjust enrichment (e.g., "borrower flipping"). When borrowers sell their home or refinance their loan they are required to pay the government 50 percent of any profits. The measure changes the 50 percent requirement to "up to 50 percent" of profits, thereby allowing pay-back rules with a lower percentage of the profits.

Offsets

The bill offsets the expected costs of the bill's modifications to the program by reducing the \$700 billion authorized for the Troubled Asset Relief Program by \$1.2 billion.

FDIC & NCUA (National Credit Union Administration)

FDIC insurance coverage on individual bank accounts had not been increased since 1980, until the Emergency Economic Stabilization Act raised the limit to \$250,000 through December 31.

When that measure was under consideration in the House, the Congressional Budget Office estimated that raising the limit to \$250,000 through 2009 would boost insured deposits nationwide by about 15 percent. As of June 30, 2008, deposits at FDIC-insured institutions totaled about \$7 trillion, of which 2.6 trillion (37%) were not insured.

This measure increases, through Dec. 31, 2013, the limit on FDIC and NCUA deposit insurance coverage on individual bank accounts to \$250,000, which is the current temporary level through December 31. It also permanently increases the FDIC's borrowing authority to \$100 billion, from \$30 billion, and the borrowing authority of the NCUA to \$6 billion, from \$100 million. The borrowing authority is the amount of money the insurers can borrow at one time from the Treasury. The FDIC's borrowing limit has not been increased since 1991 and the NCUA's authority has not been increased since the insurer's establishment in 1972. Neither insurer has ever used this authority. The House amendment also provides a temporary increase in the FDIC's borrowing authority to \$500 billion, and the NCUA to \$30 billion through 2010.

Safe Harbor

The bill provides liability protections to mortgage lenders who engage in loan modifications under the bill. This provision is intended to prevent investors who lose money because lenders modify loans from bringing suit. The protections would apply to owner-occupied residential mortgage loans modified prior to Dec. 31, 2012.

Lender Provisions

The bill allows the FHA (Federal Housing Administration) to impose a civil penalty on lenders that are not FHA-approved, but attempt to participate in the agency's mortgage originations. The bill clarifies that lenders are not eligible for FHA-approval if any officer, partner, director, principal, or employee is suspended or debarred by any federal agency, is under indictment for, or has been convicted of an offense that reflects adversely upon the applicant's integrity to meet the responsibilities of an approved borrower. Lenders would also be ineligible if they engaged in business practices that do not conform to generally accepted practices of prudent mortgagees, or are convicted of a felony related to participation in the real estate or mortgage-loan industry.

The measure alters the existing FHA process of reviewing new lender applicants for approval by

requiring the identification of lenders representing a high risk to the Mutual Mortgage Insurance Fund. It also requires the FHA to implement procedures to expand the number of loans reviewed for lenders approved within the last 12 months.

McKinney-Vento Homeless Assistance

The McKinney-Vento Homeless Assistance Act authorized conditional funding of grants to states to assist with homeless shelters and programs, and ensured free transportation to and from school for homeless children. The law has never been reauthorized. This bill authorizes \$2.2 billion in FY 2010, and such sums as necessary in FY 2011, for programs authorized under the law. It also expands the definition of homeless to include families that will "lose their housing in 14 days." (Current practice is 7 days.) Grant recipients would be authorized to use 10% of funding received to assist families with children that are not "technically homeless."

Other Provisions

The legislation authorizes funding for three programs in fiscal years 2010 and 2011 — \$50 million for housing counseling in areas with the highest foreclosure rates; \$10 million for advertising to increase public awareness of mortgage scams; and \$5 million for "fair housing" activities in areas with the highest foreclosure rates.

Tenant Protections

The bill allows tenants to remain in their residence, pursuant to their lease, following a foreclosure, unless the new owner will occupy the unit as a primary residence. In such cases, the new owner would have to provide 90-days notice to the tenant prior to final eviction.

Neighborhood Stabilization Program

The Neighborhood Stabilization Program was created by the Housing and Economic Recovery

Act, and has been provided \$6 billion. The funding was provided to local governments and states with high levels of foreclosures to purchase and rehabilitate vacant housing. The intent of the program is to eliminate blight and return vacant units to use as affordable rental housing and affordable homeownership opportunities.

The House amendment eliminates the requirement that the program's properties be purchased at a discount from the current market-appraised value.

Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the Congress.

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